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ASB meeting minutes, 1998, July 29

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ASB Meeting Minutes, July 29, 1998

Meeting: Auditing Standards Board

Date: July 29, 1998

Location: American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036

Meeting

Attendance: Deborah D. Lambert, Chair
James S. Gerson, Vice-Chair
John L. Archambault
John Barnum
Andrew J. Capelli
Richard Dieter
John A. Fogarty, Jr.
Stephen D. Holton
J. Michael Inzina
Norwood J. Jackson, Jr.
Charles E. Landes
Stephen McEachern
Kurt Pany

Alan Rosenthal
George H. Tucker

Other Participants

Thomas Ray, Director, Audit and Attest Standards
Julie Anne Dilley, Technical Manager, Audit and Attest Standards
Gretchen Fischbach, Technical Manager, Audit and Attest Standards
Kim Gibson, Technical Manager, Audit and Attest Standards
Jane M. Mancino, Technical Manager, Audit and Attest Standards
Judith M. Sherinsky, Technical Manager, Audit and Attest Standards

Observers

Steve Eason
James Carey
John Lucca
Jeffrey Thomson
Deborah Koebele
Curt Verschoor

I. CHAIR'S REPORT

Deborah D. Lambert, Chair, Auditing Standards Board, noted that W. Ronald Walton, member of the ASB since January 1995, has stepped down effective July 1, 1998 pursuant to the merger of his firm, Price Waterhouse LLP, with Coopers and Lybrand LLP. James S. Gerson, ASB Vice Chair, will continue to serve on the Board as the representative of PricewaterhouseCoopers. D. Lambert welcomed John Barnum of McGladrey & Pullen LLP, who has been appointed to fill the vacant chair. D. Lambert also reported on the following:

- o the audit issues task force meeting on July 1 (see attached

highlights).

- recent meetings and progress toward completion of the SOP on agreed-upon procedures directed to year 2000 plans of broker-dealers and CFTC-regulated entities.
- exposure drafts recently issued by the OMB and GASB. ASB members volunteered to review these and report their observations to the AITF at its next meeting on August 26.
- a liaison meeting with the Technical Issues Committee on July 22.
- the formation of an ad hoc working group of ASB members and a representative from TIC who will prepare for a discussion of going concern and financial flexibility at the upcoming AITF liaison meeting with the FASB.

I. DIRECTOR'S REPORT

Thomas Ray, Director—Audit and Attest Standards, reported on the following matters to the ASB.

A. International Auditing Practices Committee

The International Auditing Practices Committee (IAPC) met during the week of June 15, 1998, in Caracas, Venezuela. T. Ray served as technical advisor to Robert Roussey, U.S. representative and IAPC chair. During the meeting, the IAPC—

- Issued an International Auditing Practices Statement (IAPS) on the Year 2000 Issue. The majority of the significant concerns outlined in the AICPAs comment letter on the exposure draft were satisfactorily addressed by the IAPC. An IAPS is not intended to have the same authority as an International Standard on Auditing.
- Voted unanimously to issue an exposure draft of a proposed International Standard on Auditing (ISA), "Communications to Those Charged with Governance." The ISA requires the auditor to communicate "governance matters," as defined, that come to the auditors attention during the course of the audit. The exposure period is expected to end on November 30,

1998.

- Voted to indefinitely defer the project on true and fair override.

In addition, the IAPC will consider two project proposals at its October meeting in Kyoto, Japan: auditing derivatives and reporting on internal control. T. Ray volunteered U.S. resources to develop a project proposal on derivatives, and Canada, the UK and Germany volunteered to assist.

B. The Year 2000 Issue

In a letter to the Commodity Futures Trading Commission (CFTC) dated May 18, 1998, D. Lambert and T. Ray explained why auditors could not be responsive to the CFTCs Advisory on the Year 2000 Issue. The director of the CFTCs Division of Trading and Markets responded in a letter dated June 3, 1998. On June 9, 1998, T. Ray, D. Lambert, J. Gerson and N. Jackson met with CFTC representatives to discuss the issues. At the meeting, the CFTC agreed to work with AICPA representatives to develop a mutually agreed approach auditors can use to assist the CFTC in meeting its objectives with respect to the Year 2000 Issue. CFTC representatives subsequently joined our project with SEC representatives to develop agreed-upon procedures designed to address the SECs objectives related to broker-dealer reporting on their year 2000 efforts. (D. Lambert reported on the status of this effort in her report to the ASB).

C. Auditing Standards Board Slate Approved by Board of Directors

The AICPA Board of Directors approved the nominations for the ASB committee year beginning January 1999. Following are the new members.

Robert F. Dacey, Director, Accounting and Information Management Division of the U.S. General Accounting Office, will replace Norwood (Woody) Jackson.
Robert C. Steiner, partner in the national office of Deloitte &

Touche LLP, will replace John Fogarty
Ray Whittington, Director, School of Accountancy at DePaul University in Chicago, will replace Kurt Pany
Keith O. Newton, partner with Grant Thornton LLP will join the ASB. The addition of another second tier firm to the ASB will fill the seat vacated as a result of the merger of the two large firms.

John Barnum, partner and director of auditing for McGaldrey & Pullen LLP, will replace John (Arch) Archambault from Grant Thornton LLP (because an ASB seat was vacated as a result of the merger of the two large CPA firms, as discussed above, J. Barnum was invited to join the ASB for the remainder of 1998).

Steve McEachern also will be retiring from the ASB. T. Ray is interviewing possible candidates.

Steve Holton has been extended for one additional year.

D. International Project on the Audit Model

The first meeting of a joint project with the U.K. and Canada will be held on August 10 and 11 in London. The subject of the project is a reconsideration of the core principles underlying the approach to providing assurance on financial information. The agenda for this first meeting is to agree on objectives of the project, determine who will lead the project, and hear about the preliminary results of some research being conducted in the UK. T. Ray, G. Fischbach and R. Dieter will be attending the meeting.

E. Exposure Drafts from GASB and GAO

The Governmental Accounting Standards Board issued for comment a proposed Technical Bulletin, Disclosures about Year 2000 Resources Committed. The comment period is expected to end on September 25, 1998. The U.S. General Accounting Office issued two proposed amendments to Government Auditing Standards (the Yellow Book). These proposed amendments are titled, Auditor Communication, and Additional Documentation Requirements When Assessing

Control Risk at Maximum for Computer-Related Controls.

F. Technical Positions Open

The Audit and Attest Standards team is actively recruiting for the new academic fellow and technical manager positions.

III. AGENDA ITEMS PRESENTED AT MEETING

OWNERSHIP, EXISTENCE, AND VALUATION (File Ref. No. 2405):

The Ownership, Existence, and Valuation task force is considering the auditors responsibility for auditing financial statement assertions about financial instruments. Stephen Holton, chair of the task force, presented a draft of a proposed SAS that would provide a general framework for auditing all financial instruments. The proposed SAS would supersede SAS No. 81, Auditing Investments, the scope of which only includes (1) debt and equity securities, as that term is defined in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, and (2) investments accounted for under APB Opinion No. 18, The Equity Method of Accounting. The proposed SAS also would provide guidance on how the auditor satisfies the SAS No. 55 requirement to obtain a sufficient understanding of an entity's internal control to plan the audit in situations in which a separate organization, such as a custodian or broker dealer, processes financial instrument transactions for an entity or maintains custody of its financial instruments.

The ASB—

- Agreed that paragraph 3 of SAS No. 70, Reports on the Processing of Transactions by Service Organizations, should be revised to clarify its applicability and to incorporate the language and concepts in SAS No. 55, Consideration of Internal Control in a Financial Statement Audit. Paragraph 3 currently states that SAS No. 70 is applicable to the audit of the financial statements of an entity that obtains either or both of the

following services from another organization:

- Executing transactions and maintaining the related accountability
- Recording transactions and processing related data

Paragraph 3 would be revised to state that the SAS is applicable when an entity obtains services from another organization that are part of its "information system."

- Discussed whether the guidance developed by the task force should be issued as a SAS or as non-authoritative guidance. The ASB voted 10 to 3 in favor of developing the document in the form of a SAS.
- Recommended that the SAS contain more definitive prescriptive guidance regarding procedures to be performed in auditing financial instruments.
- Recommended that some of the contextual guidance that summarizes the contents of other SASs be deleted from the document.

See [Attachment to Highlights of Auditing Standards Board Meeting](#)

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